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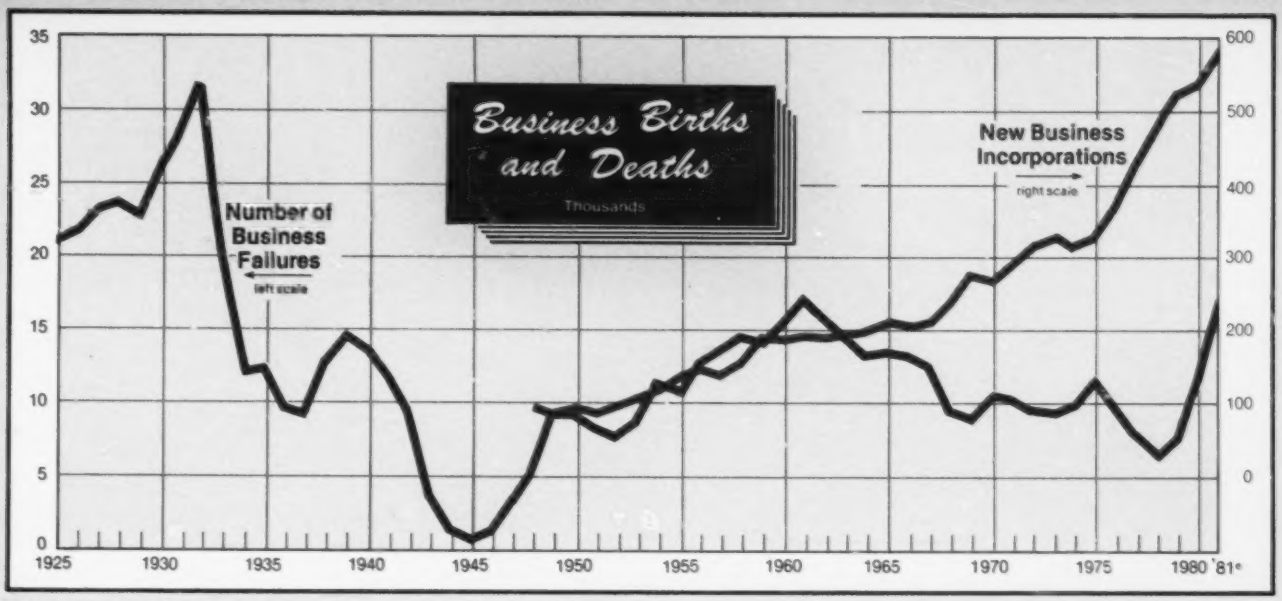
The Conference Board

Business Failures

Economic Road Maps

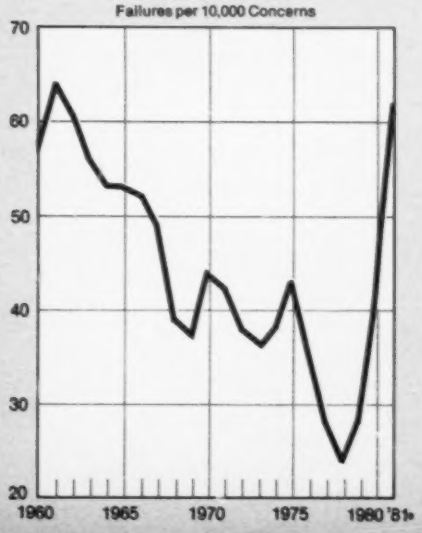
Nos. 1928-1929 June, 1982

Exceptionally high interest rates, coupled with weak sales volume due to the recession, are the main causes of the financial distress experienced by business today. A good deal of debt was taken on in recent years, on the assumption that persistent high inflation would make it possible to repay fairly painlessly. But sales volume has slumped, and the slowdown of inflation has dampened selling prices; yet interest rates have not declined very much. Consequently, many businesses find themselves in trouble, and the choice for many has been bankruptcy. The 1979 revision of the bankruptcy laws, which makes filing easier, has also helped to raise the number of firms taking this route.



Failure Rate

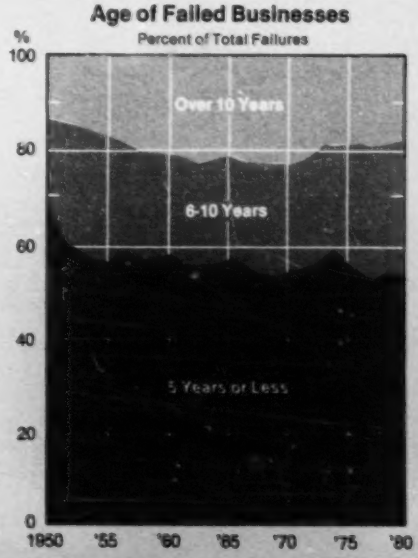
Failures per 10,000 Concerns



The failure rate per 10,000 concerns, as tallied by Dun and Bradstreet, has climbed from a low of 24 in 1978 to 42 in 1980, and an estimated 62 in 1981. The 1982 rate is expected to reach 80 per 10,000, the highest since 1933, when the failure rate hit a high of 100 per 10,000. Conditions are also bleak in sectors not covered by Dun and Bradstreet. The Federal Deposit Insurance Corporation reports that a total of 17 banks have failed so far in 1982—the highest number since 1942, when 23 banks went under during the entire year—and that the farm sector is known to be in trouble. Farmers are usually heavy bor-

Age of Failed Businesses

Percent of Total Failures



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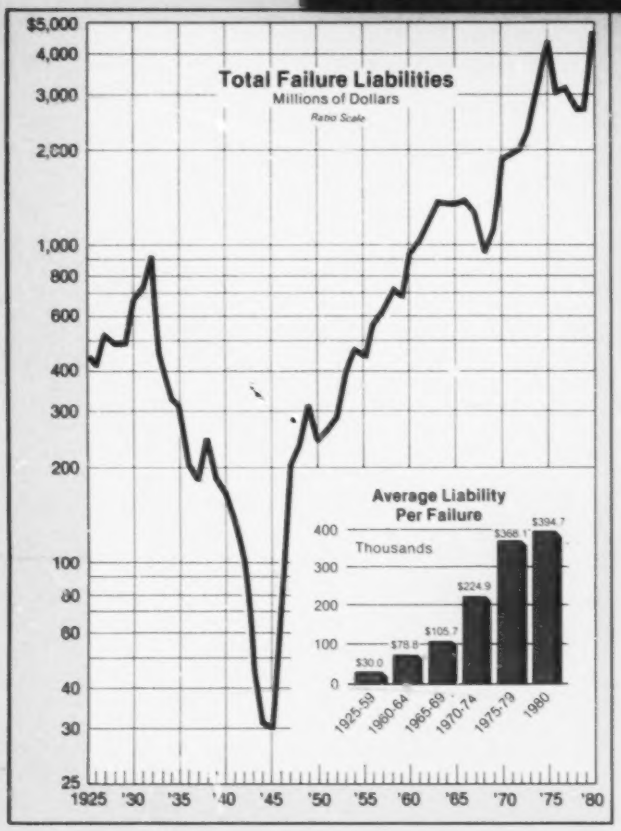
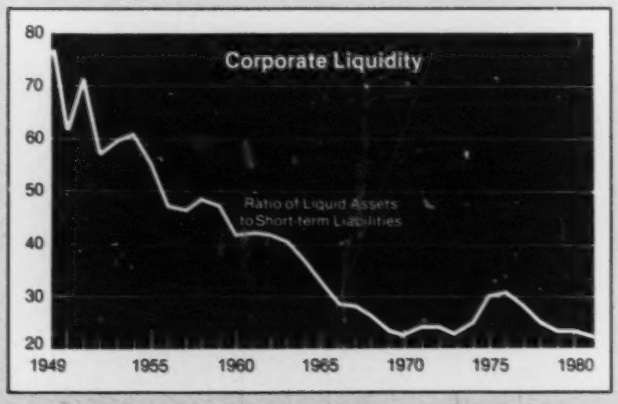


rowers, and they are finding it increasingly difficult to finance new crops.

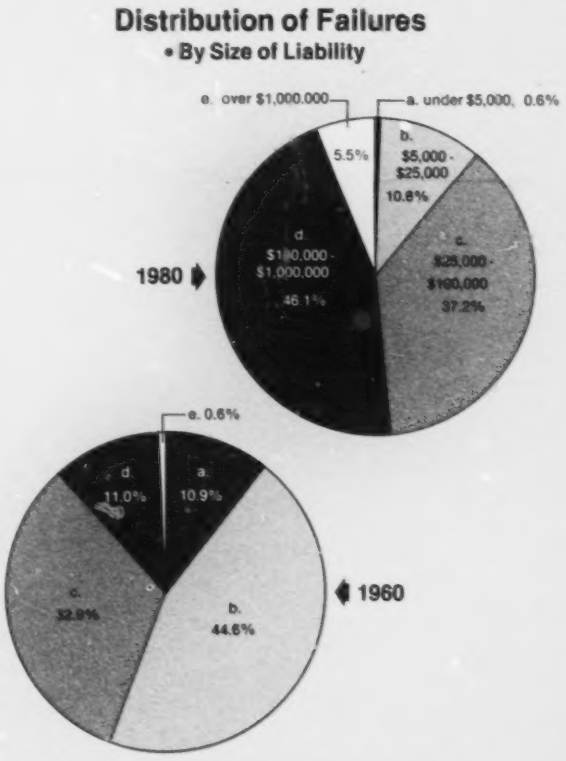
In absolute terms, the number of failures tallied by Dun and Bradstreet has risen from 11,000 in 1980 to an estimated 17,000 in 1981, with forecasts for 1982 running as high as 26,000. The onset of economic recovery will not immediately alleviate the situation, since the number of failures tends to rise for almost a year following the beginning of an upturn.

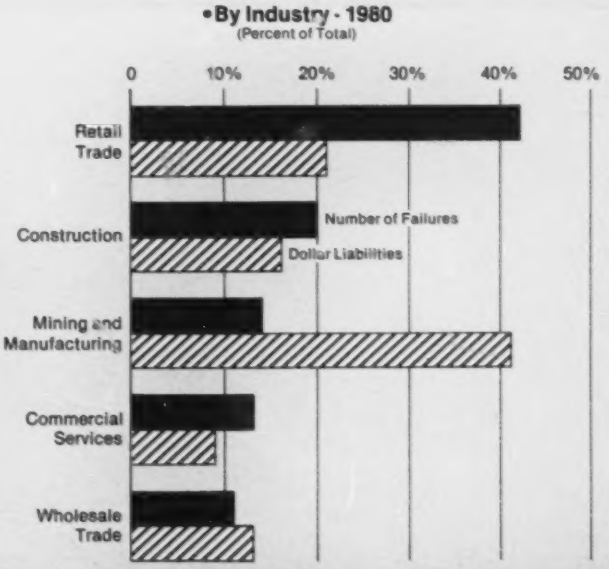
The number of new businesses incorporating annually in the United States has almost tripled over the past 15 years: from 200,000 to almost 600,000. But, while several hundred thousand firms are started every year, an almost equal number are discontinued or sold. A majority of these, for reasons ranging from bad health

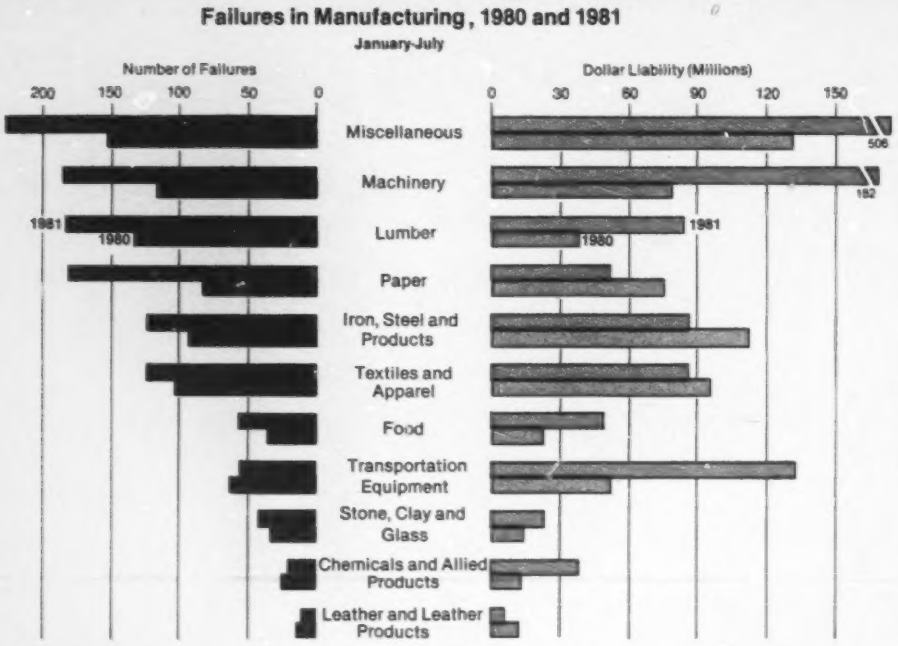


to insufficient profits, just pay off their creditors and close their doors, or are sold to new owners. Some companies go bankrupt and are liquidated under Chapter 7 of the Federal Bankruptcy Act, while others file for shelter under Chapter 11 and remain in business while a plan for debt repayment is drawn. According to the Dun and Bradstreet definition, only companies involved in court proceedings or voluntary actions that involve loss to creditors are considered failed. Failures thus represent only a small percentage of total discontinuances.

Failures in banking are quite different in nature from

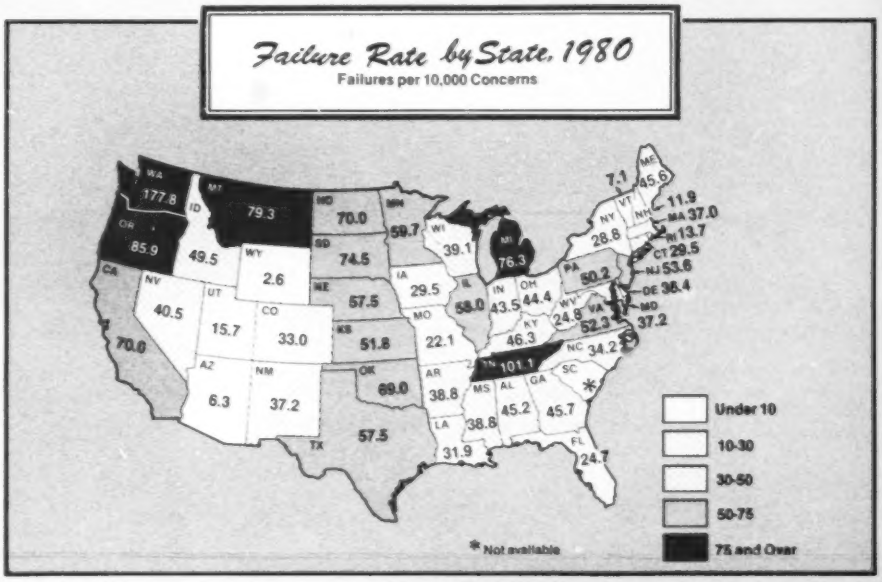


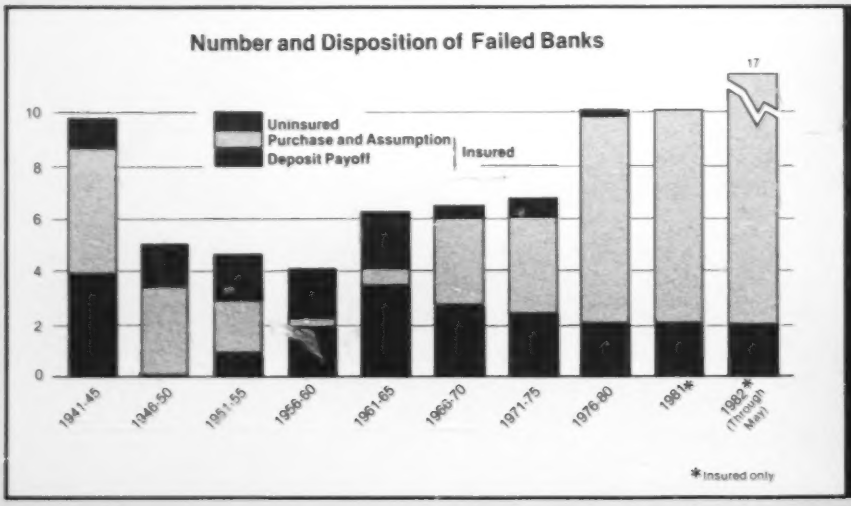


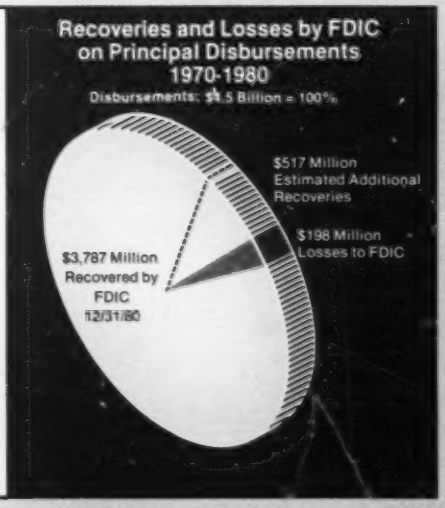


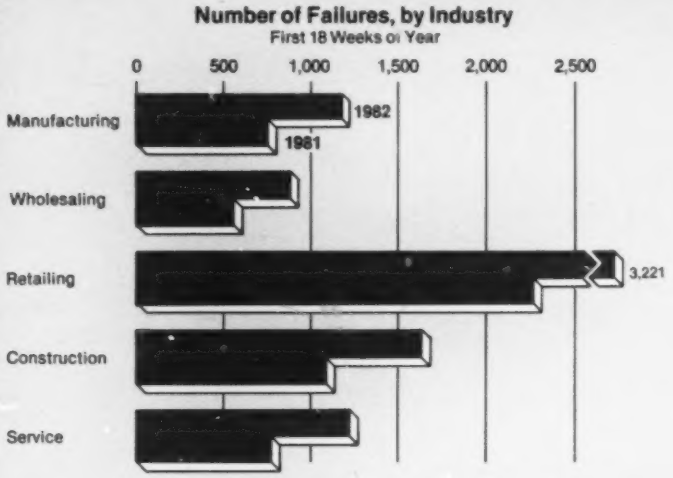
($100,000 at present). Before the establishment of the FDIC in 1933, bank failures occurred in astonishing numbers. In the 1920's, an average of 588 banks failed in each year; between 1930 and 1933, over 9,000 banks suspended operations with a loss to depositors of $1.3 billion.

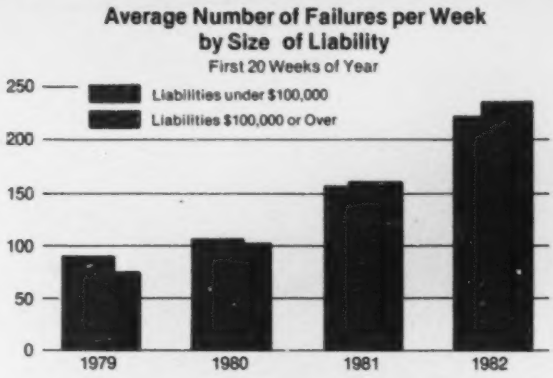
Total liabilities of failed businesses, as tallied by Dun and Bradstreet, are at an all-time high. From $2.7 billion in 1979, they rose to $4.6 billion in 1980, and reached $3.6 billion through the first seven months of 1981 (compared with $2.4 billion for the corresponding period in 1980). Less than 12% of all failing companies had liabilities of those in other businesses. In nonfinancial business, only creditors or the firm itself can initiate bankruptcy proceedings; in banking, the chartering authority, which is neither a creditor nor an investor in a bank, is empowered to declare a bank insolvent. The next step is either deposit payoff (liquidation of the bank) or purchase and assumption (merger into a sound institution). The number of failed banks is somewhat understated, since emergency mergers are often arranged before the acquired bank actually fails. In cases of insured banks, the FDIC guarantees each depositor the amount of his or her account up to the insurance limit

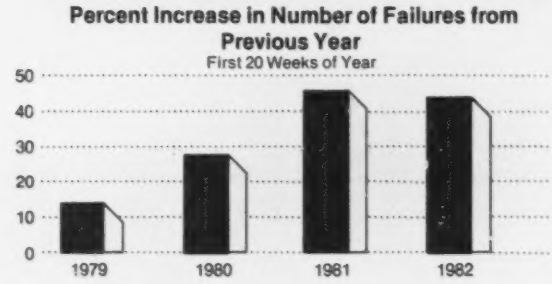





Recoveries and Losses by FDIC on Principal Disbursements 1970-1980
Disbursements: $3.5 Billion = 100%
$517 Million Estimated Additional Recoveries
$198 Million Losses to FDIC
$3,787 Million Recovered by FDIC 12/31/80





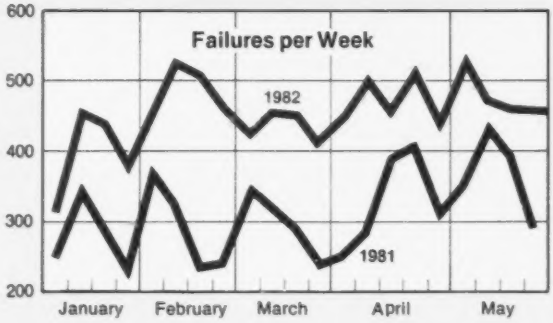


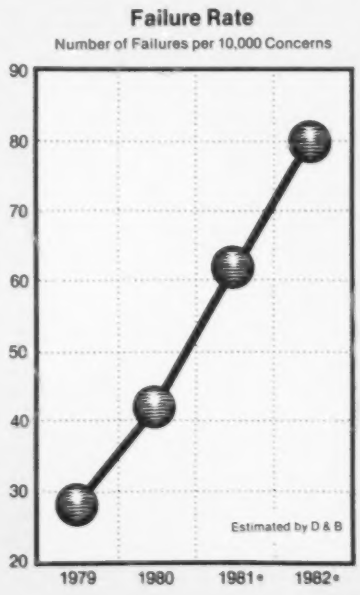
more than $100,000 in 1960, while over half of all companies fall in this category today. Mining and manufacturing constitute the largest single failure category in terms of dollar liabilities—over 40%—although these industries account for only 12% of the total number of failures. Retail businesses, which are usually small, accounted for 40% of the number of failures in 1980, but their liabilities were only 20% of the total.

The latest trends indicate that, while failures in all industries are up this year, the manufacturing sector is being affected more than previously. The number of failures in manufacturing was up 58% during the first 18 weeks of 1982 from the comparable period last year. The number of failures with liabilities of over $100,000 is also up—53% during the first 20 weeks—while those with liabilities under $100,000 are up 45 percent.

Eva Culen

Sources: Dun & Bradstreet; Federal Deposit Insurance Corporation; Federal Reserve Board; The Conference Board.





ECONOMIC ROAD MAPS

Eva Culen, Editor Chuck N. Tow, Lead Chartist

Prepared in The Business Conditions Analysis Department—Lora S. Collins, Director
Prices for Quantities of this chart will be supplied on request to Information Service.

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U.S. Manufacturing Industry

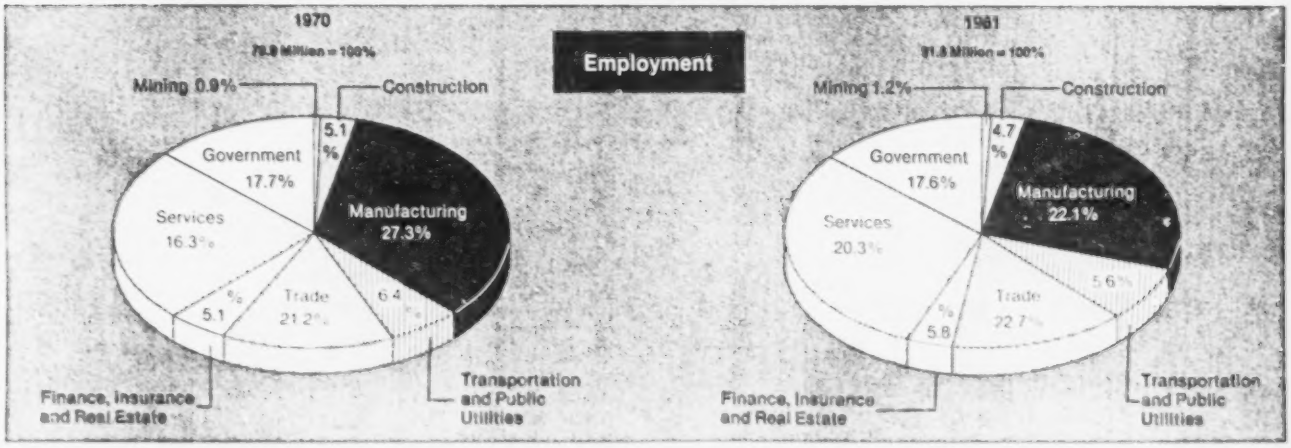
Economic Road Maps

Nos. 1930-1931

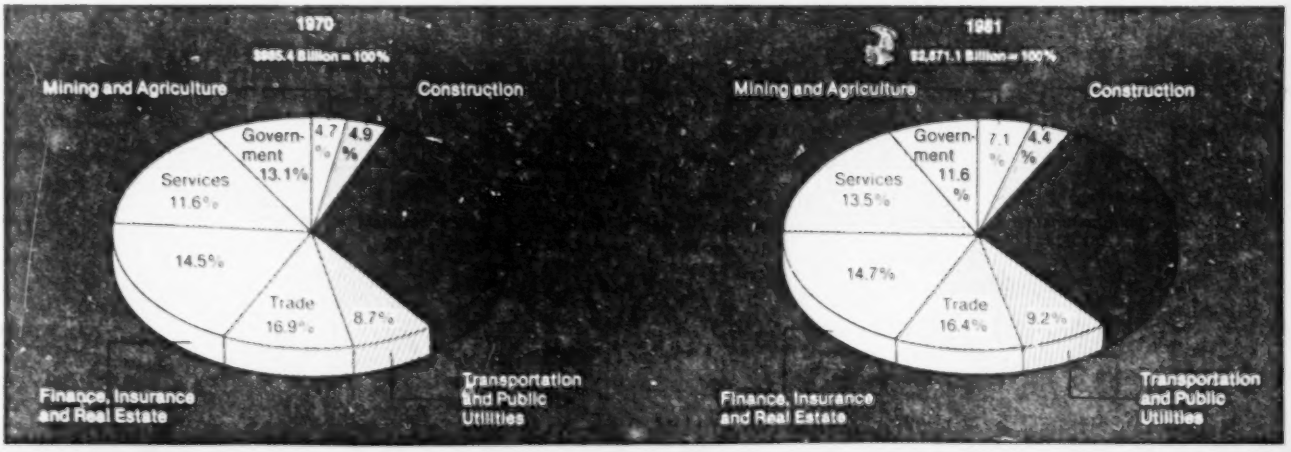
July, 1982

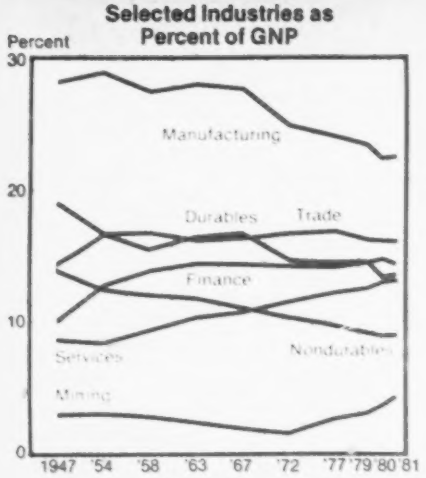
The United States may be shifting to a service-oriented economy, but manufacturing remains a major sector of the economy. In 1981, manufacturing plants employed 20.3 million persons, or 19% of the civilian labor force of 109 million. Gross-product originating in manufacturing—that is, its contribution to the Gross Domestic Product—averages over 23% of total GDP. That share has been declining, however. As recently as 1970, it was more than a quarter. The next largest sector is wholesale and retail trade combined, generating over 16% of GDP.

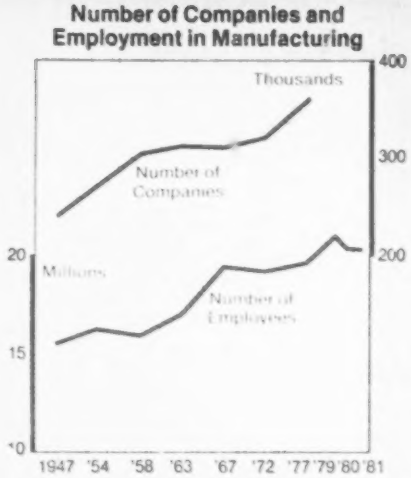
Industry Distribution of Nonfarm Employment and Gross Domestic Product

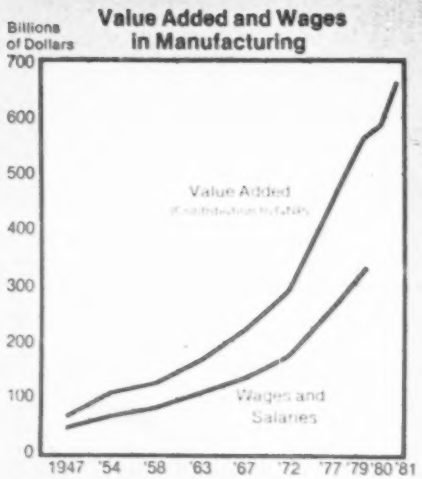


Percent Distribution of the Companies in Selected Nonfarm Industries 1977

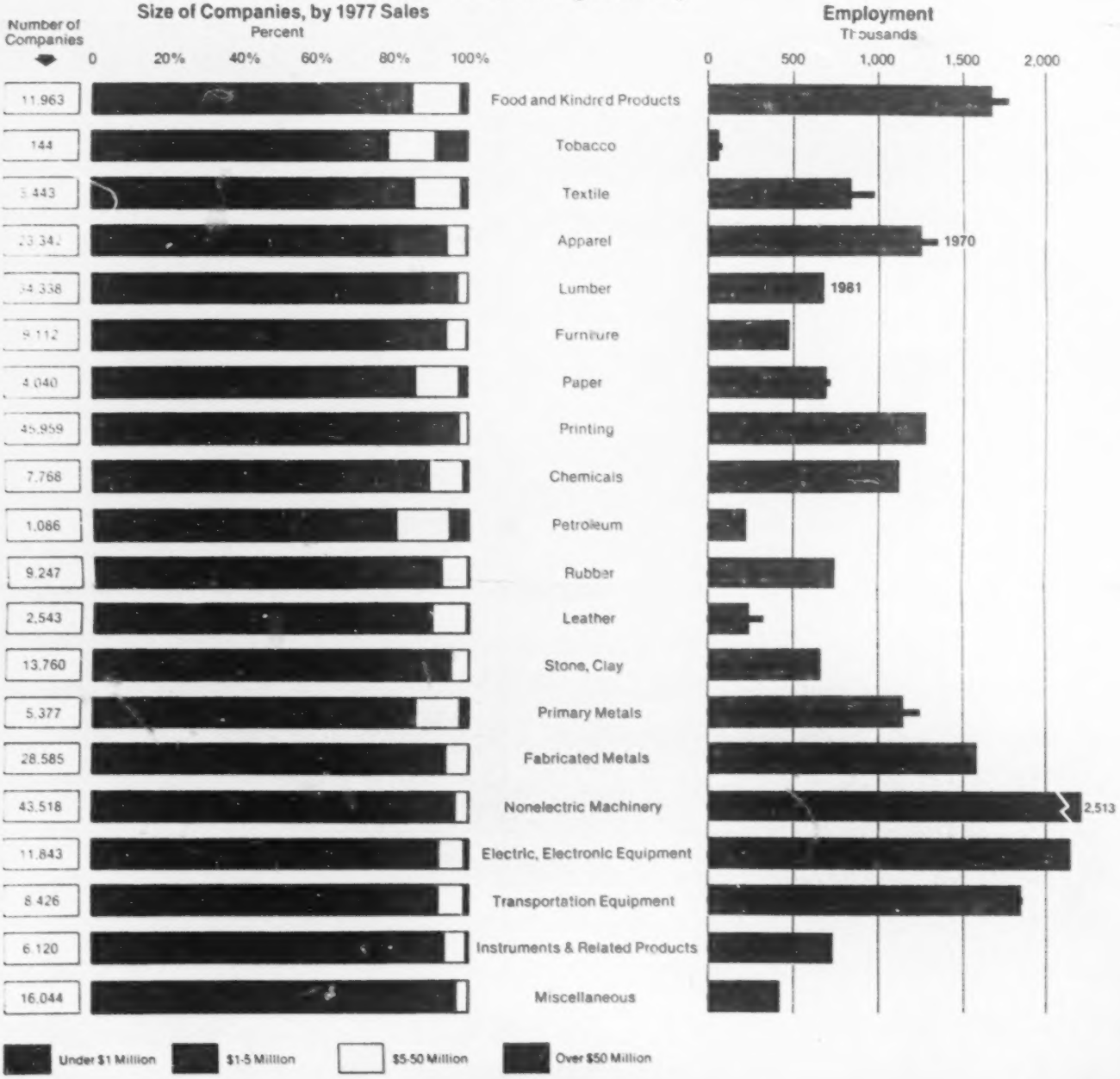


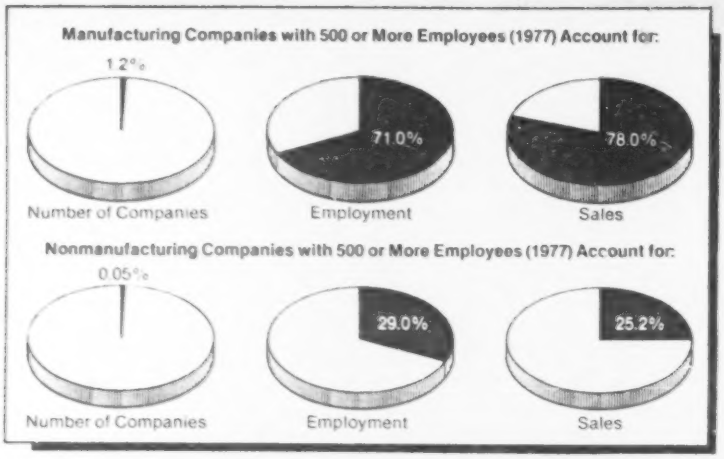






Manufacturing Industry:





The manufacturing sector added 1.7 million jobs between 1970 and 1979, but lost 870,000 during the past two years for a net gain of 800,000. Employment trends differ considerably among various manufacturing industries. Jobs in leather manufacturing fell 27% from 320,000 to 233,000 and employment in the tobacco and textile industries declined by about 15 percent. On the other hand, employment in the instruments industry rose by 36% and nonelectrical machinery and rubber industries each gained over 27 percent.

According to the 1977 Census Bureau Enterprise Statistics, the great majority of manufacturing companies have sales of under $5 million.

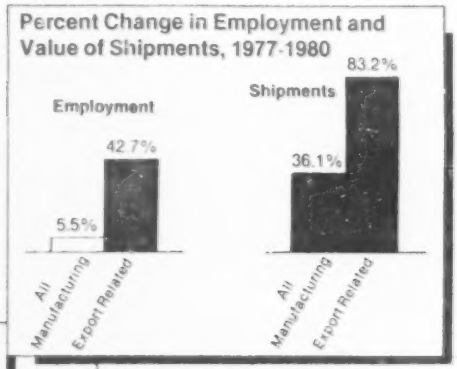
In 1981, the states with the largest numbers of manufacturing workers were California with 2 million, followed by New York (1.4 million), Pennsylvania (1.3 million), Ohio (1.2 million), and Illinois (1.1 million). Texas, by adding over 200,000 manufacturing jobs since 1970, has joined the over-1-million category; Michigan, which lost 140,000 jobs, dropped out of the group. In terms of importance to local economies, manufacturing employment is still concentrated in the northern states, but a number of states in the South now have over 25% of their employment in manufacturing. North Carolina and Connecticut with 34% have the highest ratio of manufacturing employment in the country.

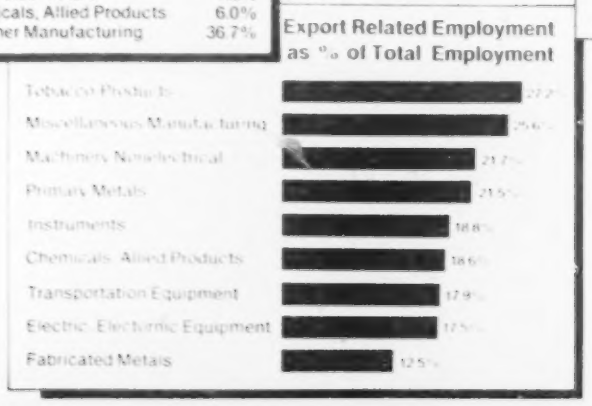
Export trade is becoming a major source of growth for manufacturing industry, in terms both of employment and of shipments. In 1980, there were some 4.8 million jobs related to the export of manufactured goods—2.8 million in manufacturing plants and 1.9 million in nonmanufacturing activities. Between 1977 and 1980, 79% of all new manufacturing jobs were export related. Value of manufactured products exported in 1980 was $155.1 billion.

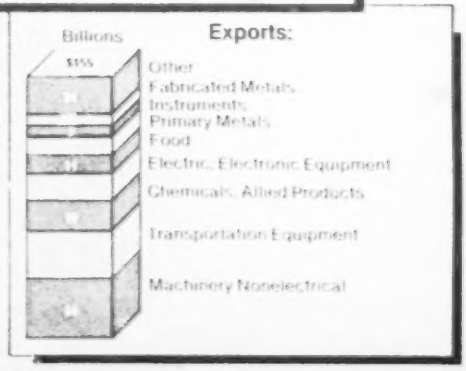
Eva Culen

Source: U.S. Department of Commerce; U.S. Department of Labor; The Conference Board.

Manufacturing and Exports, 1980



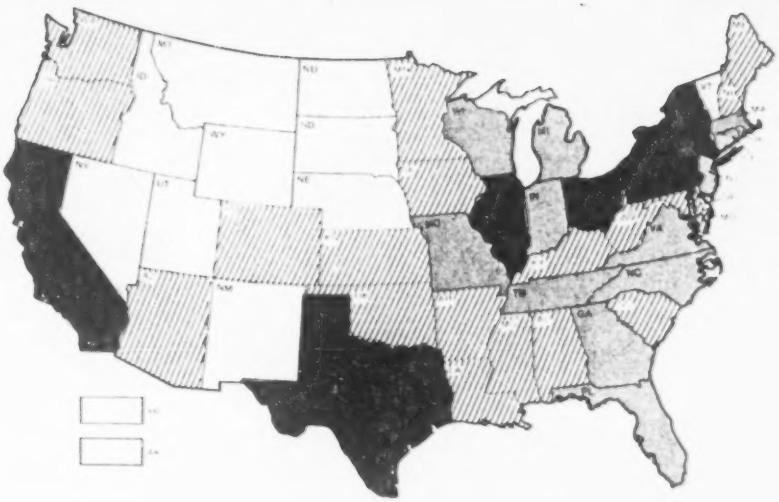


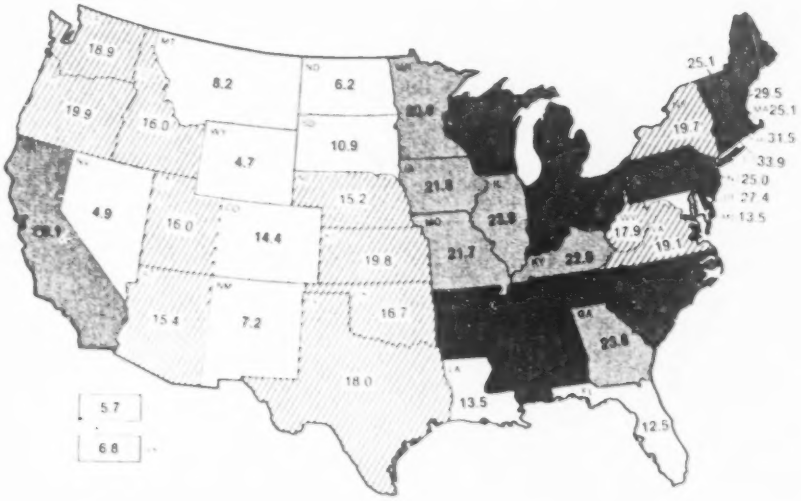


Manufacturing Employment 1981

Number of Persons

- 1 Million & over
- 400,000-1 Million
- 100,000-400,000
- Under 100,000



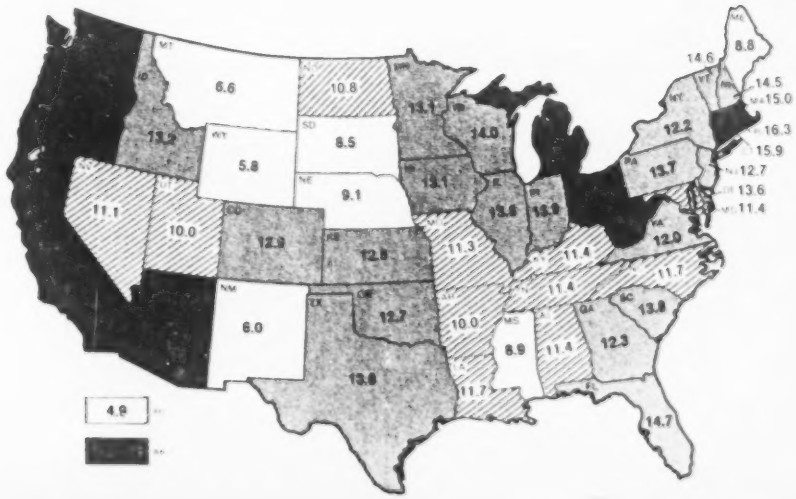


Manufacturing Employment as Percent of Total Employment 1981

- 25% & over
- 20%-24.9%
- 15%-19.9%
- 0-14.9%

Manufacturing Export-Related Employment as Percent of Manufacturing Employment 1980

- 15% & over
- 12%-14.9%
- 10%-11.9%
- 0-9.9%



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The Conference Board

Productivity: Trends and Comparisons

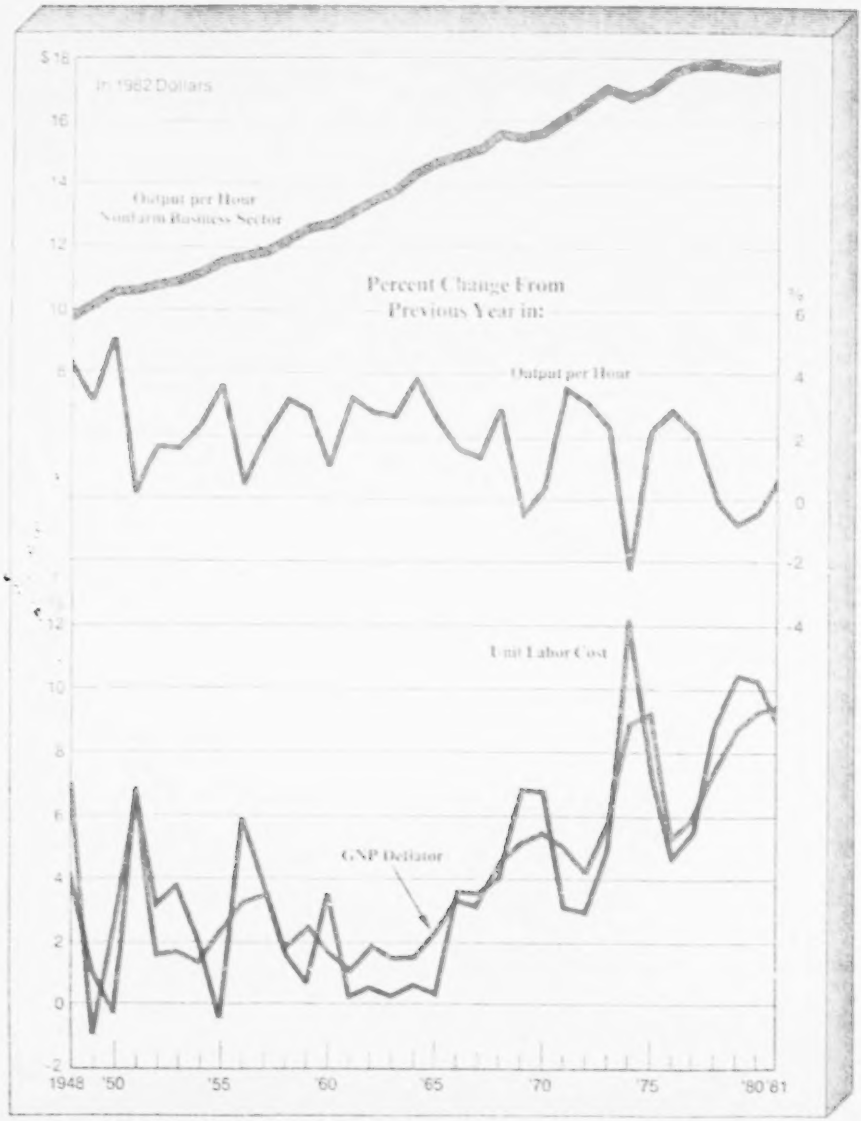
Economic Road Maps

No. 1932-1933

August, 1982

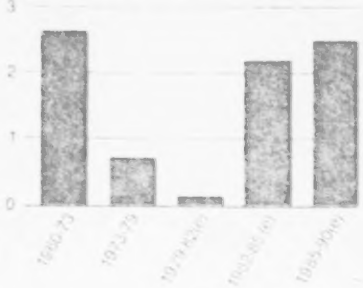
The rate of productivity growth is closely involved with two central goals of our economy—raising the living standard and controlling inflation. If average labor productivity rises at about the same pace as average compensation, the average labor cost per unit of product will be stable. And if the shares of national income accruing to labor and to capital remain unchanged, prices will be stable. The rate of increase in productivity has been slowing over the last two decades in the United States, an experience shared with other major developed countries. This has translated directly into a slower rise in the living standard, and has been a factor in the speedup of inflation. There is a reasonable expectation, however, that productivity growth in the United States will improve significantly in the 1980's.

Labor Productivity and Inflation



Projected Growth in U.S. Labor Productivity

Average Annual Percent Change

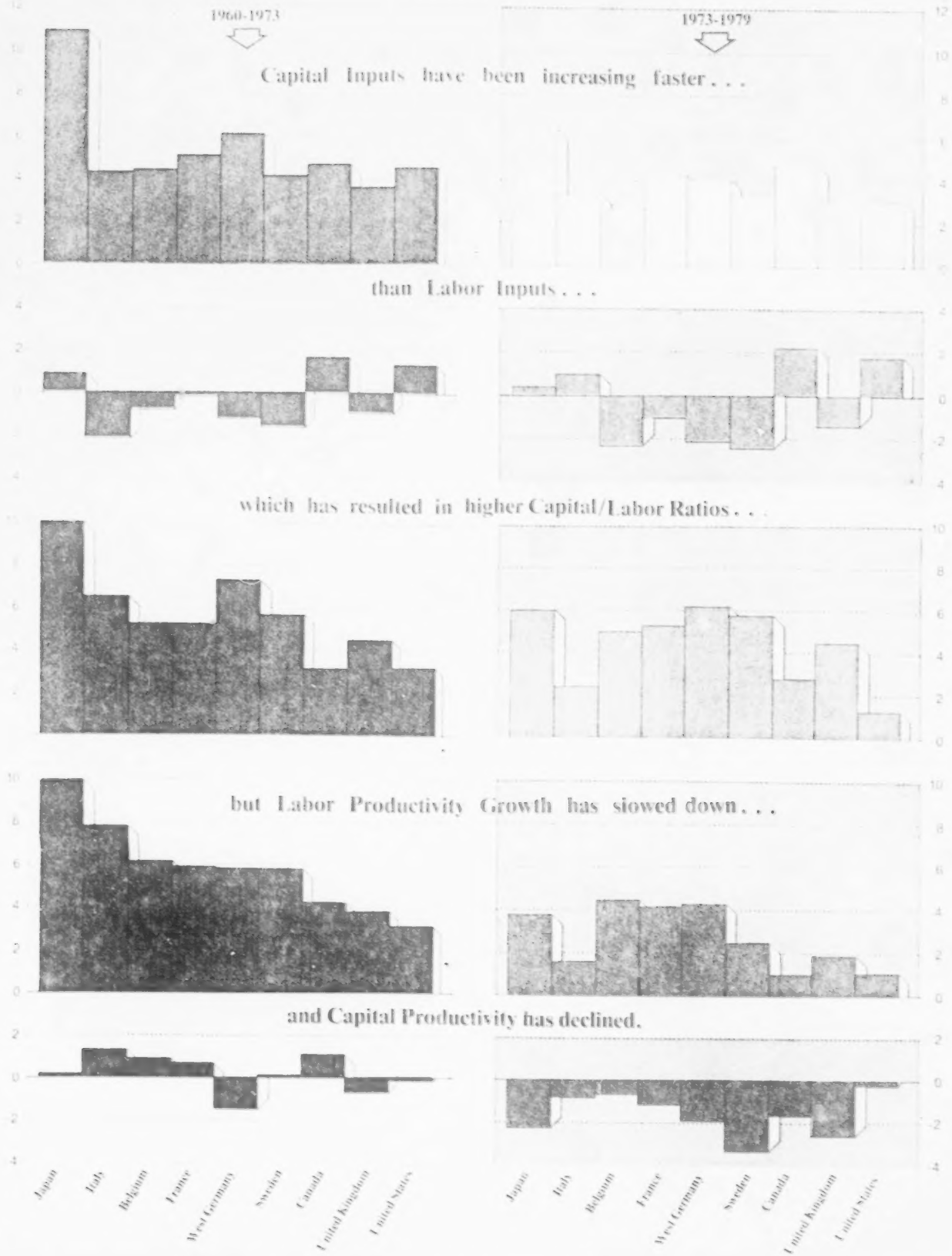


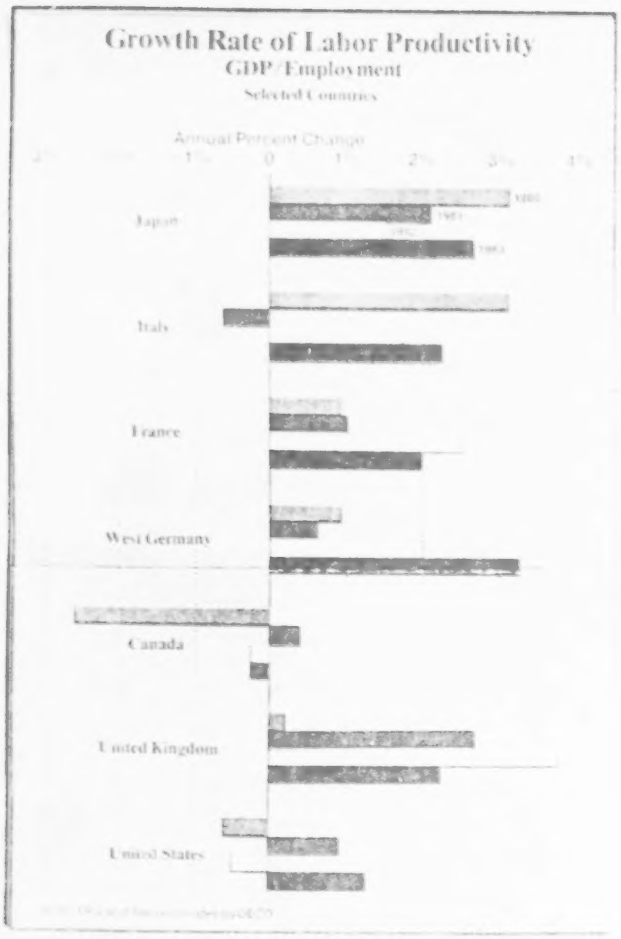
There are several methods of calculating productivity, but all are essentially the ratio of some measure of output to some measure of input. Changes in these ratios reveal changes in the effectiveness of production factors and the efficiency with which they are used in the production process. The meaning of a particular ratio depends on how the output and inputs are defined. Use of only one factor —labor or capital—results in what is really just a partial productivity measure for that factor. Although this is the common procedure, total factor productivity can be obtained by relating output to a weighted combination of inputs.

The chart on page 2 shows that capital input rose more slowly in the 1973-1979 period than in the 1960-1973 period in the United States as well as in several other major developed economies. In

Productivity Comparison

Average Annual Percent Change
Selected Countries





both the earlier and later periods, labor input, measured in terms of worker hours, rose more slowly than capital input. Due to higher population growth in North America, the hours measure increased faster in Canada and the United States than elsewhere.

These data infer a rise in the capital/labor ratios of the eight countries over the last two decades. However, the rise in the ratios was slower in the later period because the growth rates of capital input decreased, and the growth rates of labor input increased in Italy, Canada and the United States. The slowdown in labor productivity in the 1970's was related to the slower rise in the capital/labor ratios of the surveyed countries.

While explanations for the slowdown of productivity growth are numerous, many experts point to a decline in the flow of services from capital inputs. Modern plants and machinery have become increasingly more complex and complicated—therefore requiring greater maintenance and repair. Further, technological advances have made some equipment—which might otherwise be more than adequate for production use—effectively noncompetitive with other newer, more efficient machinery. In other words, there has been a rise in the rate of actual and technological obsolescence of capital.

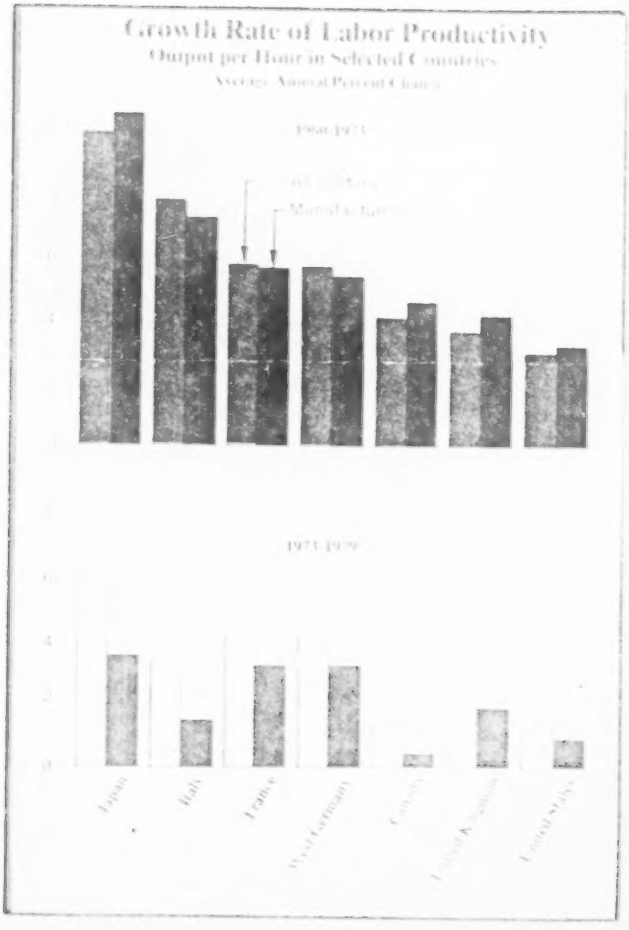
The slowdown in productivity growth has not generally been matched by a similar slowing in the rise of labor compensation. Hence, there has been an uptrend in average labor cost per unit of output, leading to price increases.

Accelerating inflation has resulted in a shift in household budgets to a greater proportion of spending at the expense of saving. Since consumers are the net savers in the economic system, their reduced savings rate has meant a reduced flow of investible funds in financial markets. Business has been faced with higher prices for new equipment, reduced availability of funds in the lending and equity markets, and a higher rate of capital obsolescence. The tremendous increase in the price of oil have only aggravated this situation. The consequence of all these factors has been a lowered rate of capital investment, which has further diminished productivity growth. In many respects, the has been a vicious circle.

The outlook for the 1980's indicates a possible break in the circle for the United States. The labor force is generally expected to expand at a slower pace during this decade than it did in the last two. This view also assumes a generally lower inflation rate in the 1980's relative to the 1970's. Further, the rate of obsolescence in the 1980's may have less of a constraining impact on the rate of expansion of capital investment. These factors, together with an improved investment environment, may mean a faster rise in the capital/labor ratio in the 1980's. If that is the case, labor productivity could grow at a higher rate in the 1980's than it did in the 1970's.

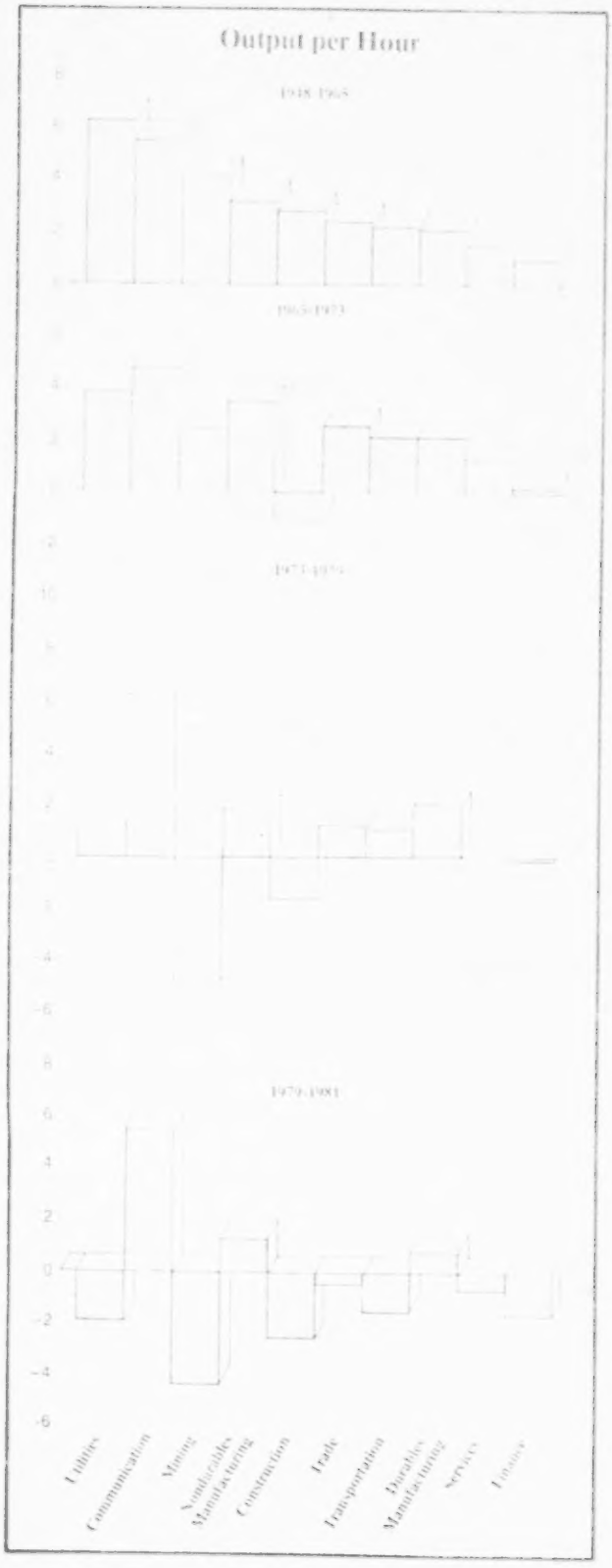
Ken Goldstein

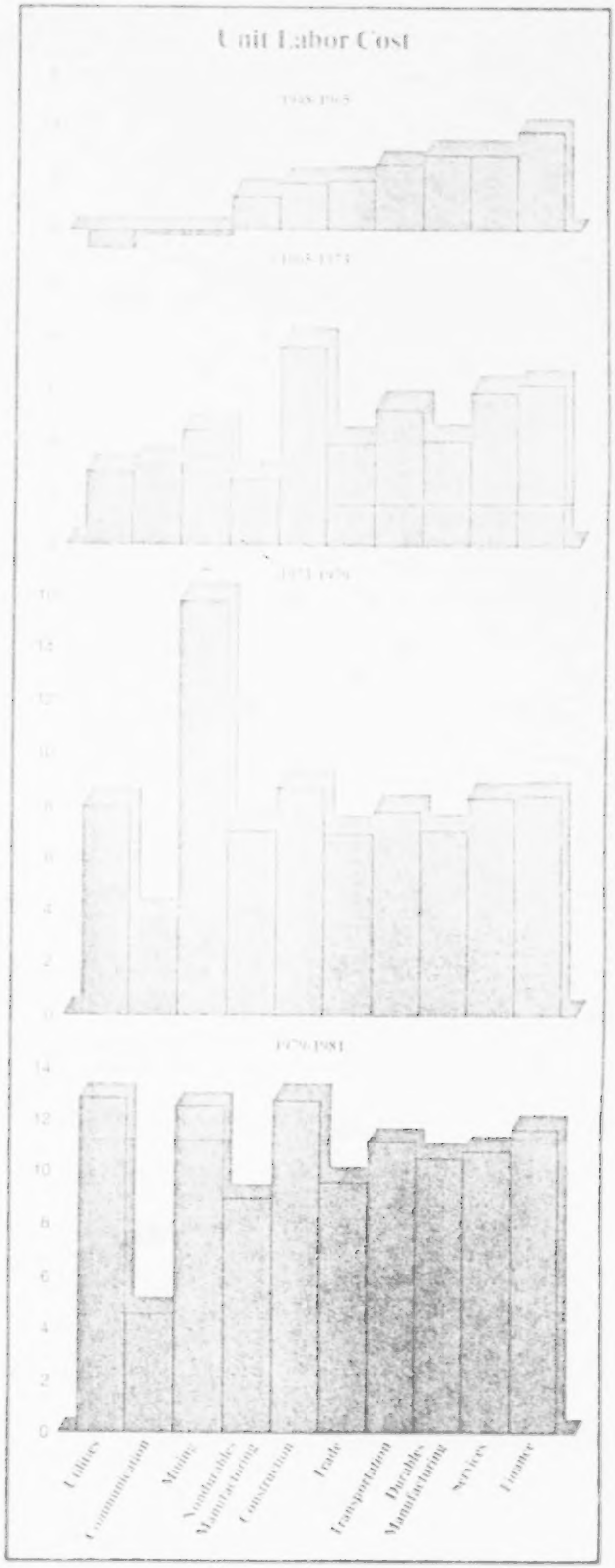
Sources: John Kendrick, "International Comparisons of Recent Productivity Trends," in *Contemporary Economic Problems*, American Enterprise Institute, 1982; Organization for Economic Cooperation and Development; Bureau of Labor Statistics; The Conference Board.



Labor Productivity Growth and Cost Increases by Sector in the U.S.

Average Annual Percent Change





ECONOMIC ROAD MAPS

Eva Culen, Editor Chuck N. Tow, Lead Chartist

Prepared in The Business Conditions Analysis Department—Lora S. Collins, Director
Prices for Quantities of this chart will be supplied on request to Information Service.

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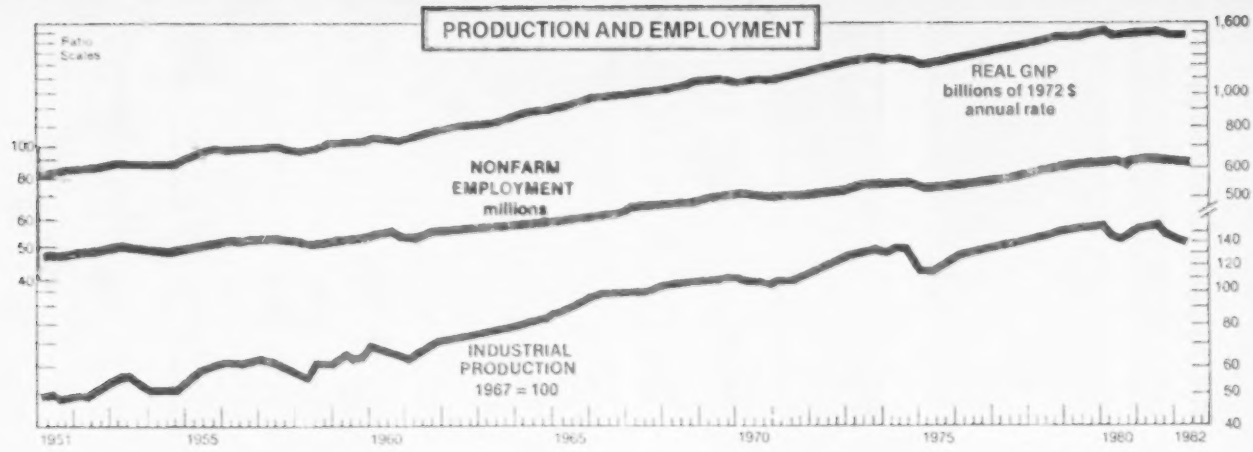
The Conference Board

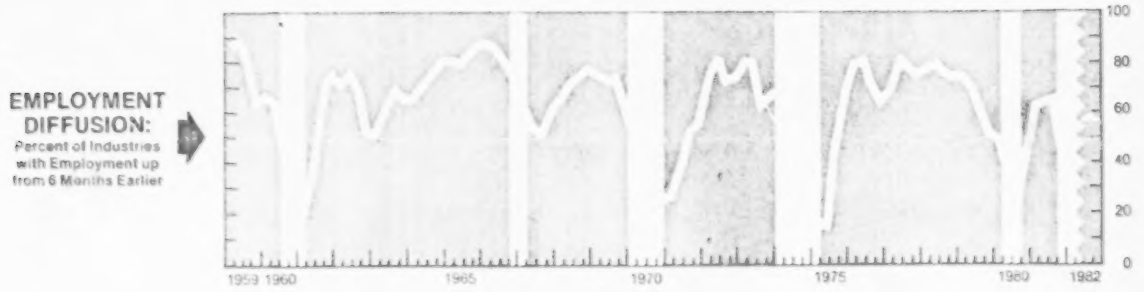
The Recession of 1981-1982

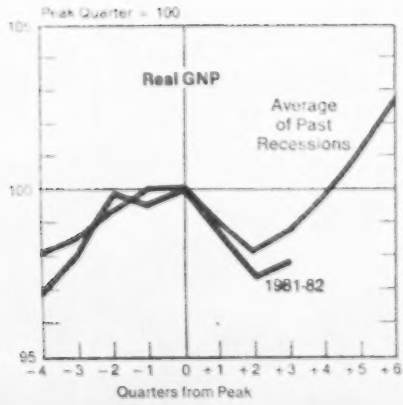
Economic Road Maps
Nos. 1934-1935

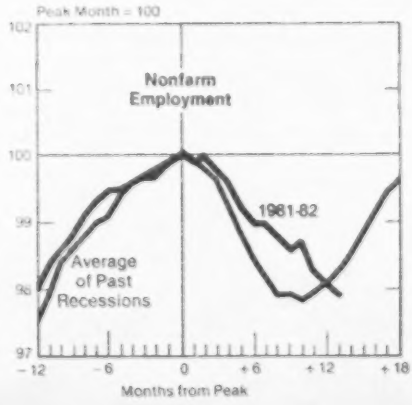
September, 1982

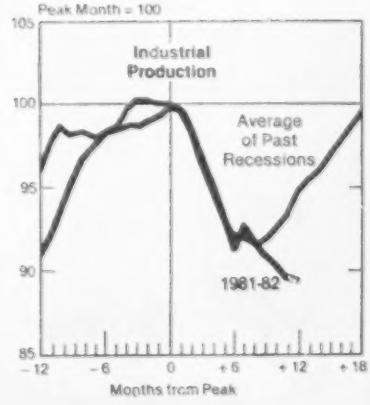
In the Summer of 1981, according to the chronology of the National Bureau of Economic Research, the United States slipped into the eighth postwar recession. The NBER is a private organization that is the generally accepted arbiter of business-cycle timing. The recessions have typically lasted less than a year (page 2). The 1974-1975 slump was longer, but many economists would date the peak at August, 1974, not November, 1973, which would make that a downturn of only seven months. The historical charts on pages 1 and 3 also identify the "quasi-recession" of 1966-1967, which is not included in the NBER chronology. The rebound from the 1980 recession came to an unusually early end. Indeed, the peak occurred in July, 1981, a mere 12 months after the trough, and many measures of economic activity never regained their 1979-1980 highs (page 3). Although the trough of the latest slump has not yet been dated, it has very probably already occurred. However, the forecast consensus is that economic growth in the next year will be only about half as fast as in the first year of a typical recovery.



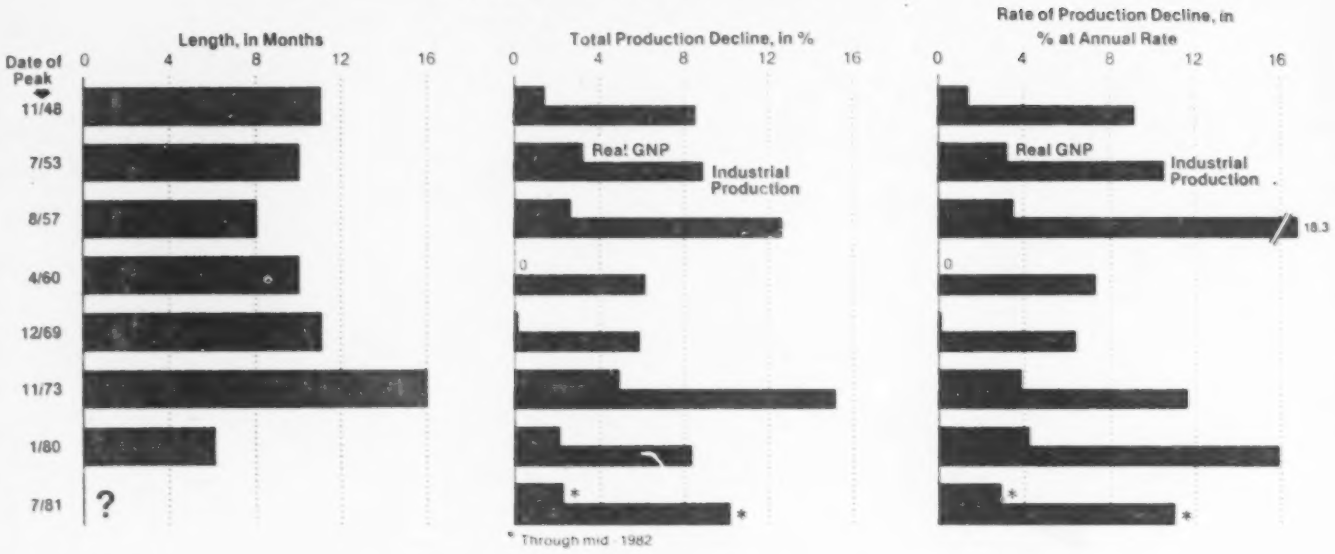




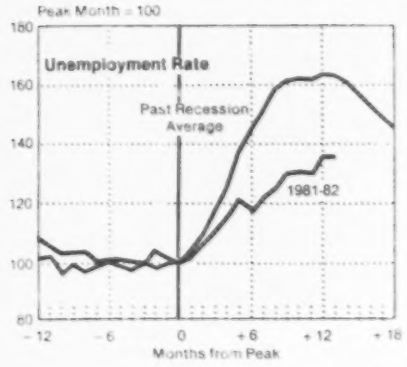


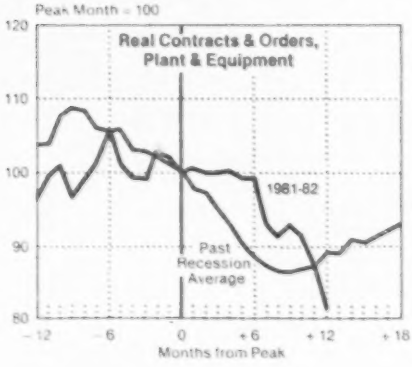


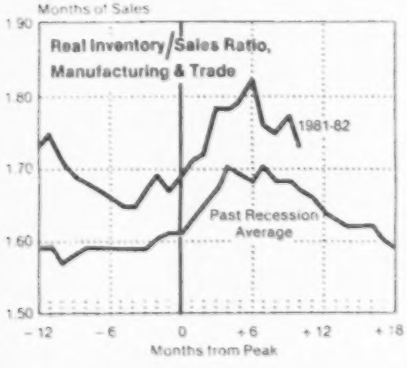
Length and Depth of Recessions

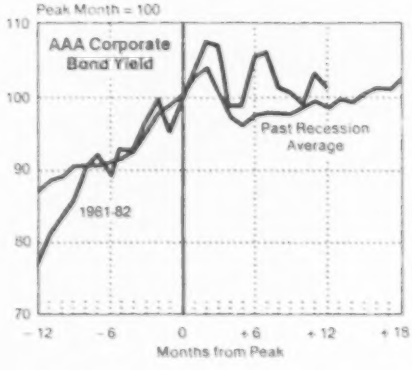


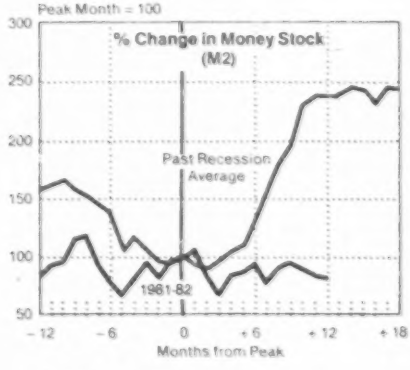
Anatomy of Recession

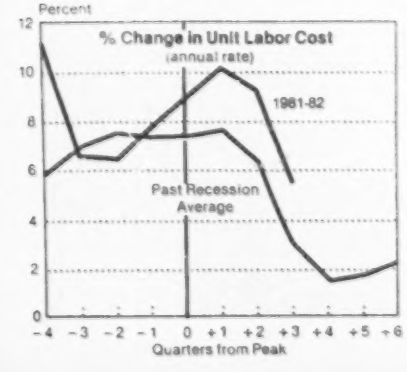


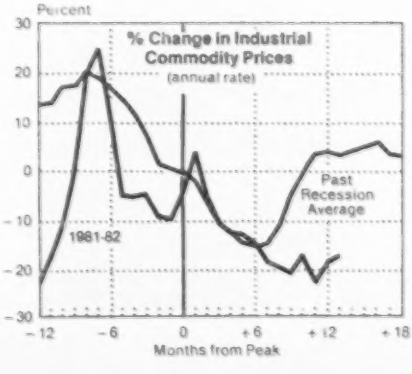


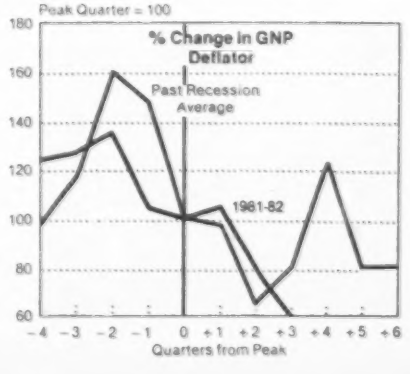




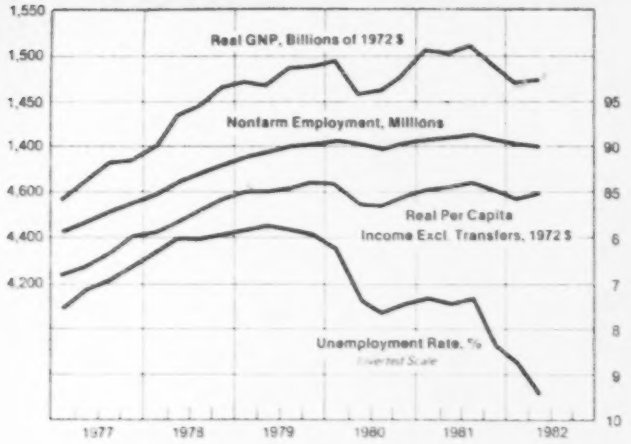


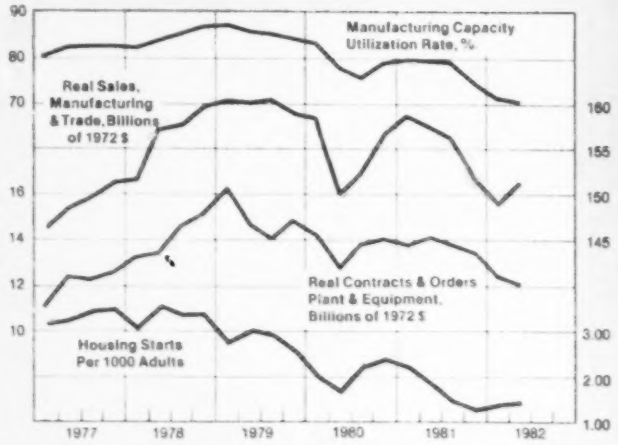






Many Economic Measures Peaked in 1979-1980





The pattern of various economic measures in the 1981-1982 recession has been generally similar to the recession average (charts on pages 1 and 2). However, although the trough has not been dated, it does appear that the latest slump was longer than average. This is probably one reason why the rate of price increase has slowed down more than it typically does (lower charts, page 2). Another significant difference from the typical pattern is that monetary growth did not accelerate sharply once the 1981-1982 recession was underway (page 2). This reflects the policy of starving inflation out of the system by not allowing enough money growth to support it. Reflecting the monetary stringency, credit use by sectors other than the Federal Government failed to rebound after the 1980 recession as it usually does (chart below at right).

Lora S. Collins

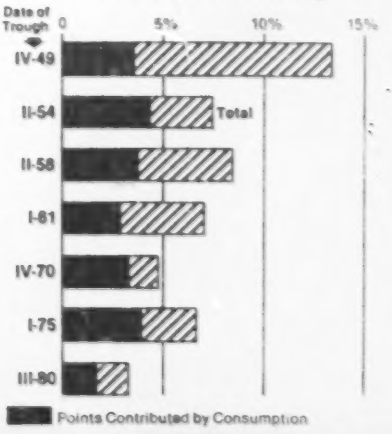
Sources: U.S. Departments of Commerce and Labor; Federal Reserve Board; National Bureau of Economic Research; The Conference Board.

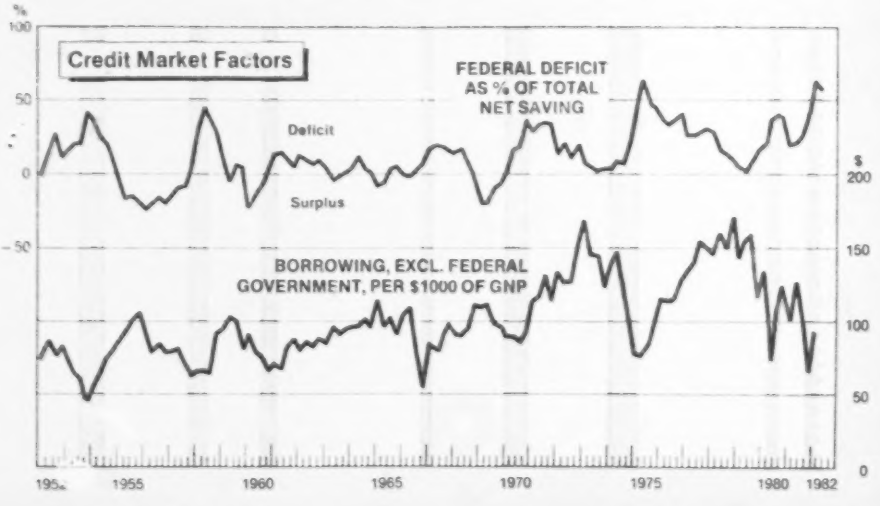
Recession's Industry Profile:
Annual Rate Percent Change in Employment from 1980-1981 High to 1982 Low

Nonmanufacturing		Manufacturing			
Services	2.4*	Food	—2.5	Transportation Equipment	— 9.5
Finance, Insurance	0.9*	Electrical Equipment	—4.8	Fabricated Metals	— 9.7
Retail Trade	0.7*	Petroleum	—5.4	Textiles & Apparel	—10.2
State & Local Government	— 1.5	Paper	—5.9	Nonelectrical Equipment	—11.0
Wholesale Trade	— 1.8	Stone-Clay-Glass	—7.1	Lumber	—15.4
Federal Government	— 1.9	Rubber	—7.7	Primary Metals	—15.9
Transportation & Utilities	— 2.1	Furniture	—8.0	All Other	— 3.3
Construction	— 6.6				
Mining	—12.2				

*No decline; % change is from June 1981 to June 1982.

Change in Real GNP in the First Year of Recovery

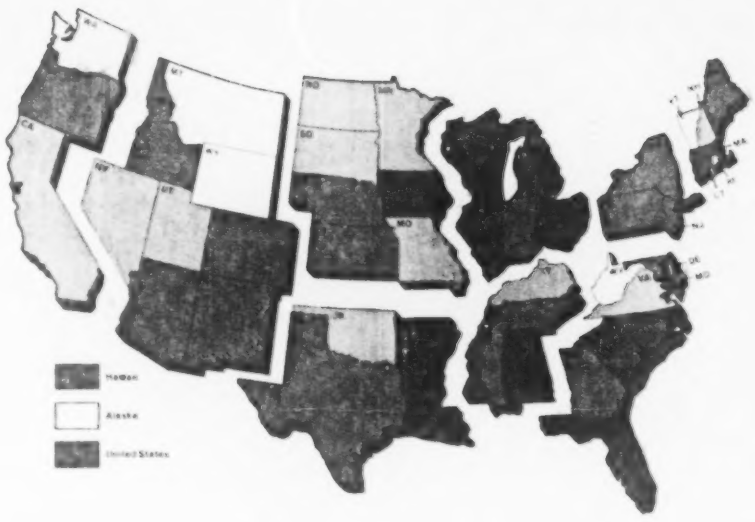


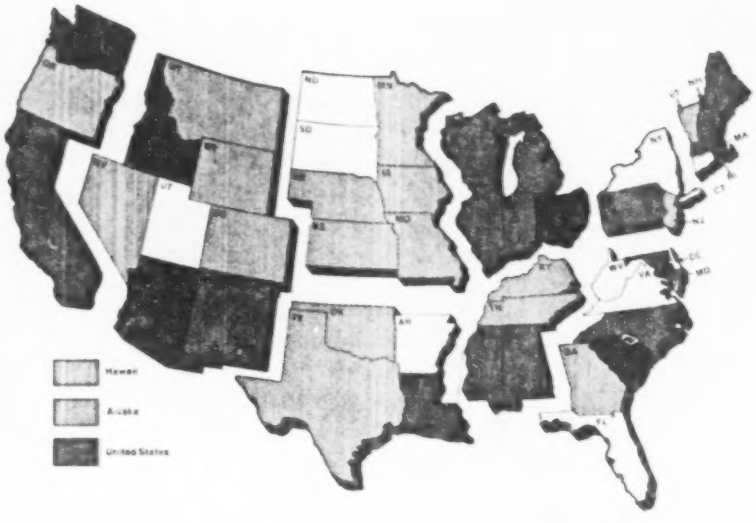


Change in Growth Rate of Nonfarm Income

Growth Rate from 1981-III to 1982-I
Compared with Rate from 1981-I to 1981-III

- Growth Rate Accelerated
- Growth Rate Slowed by less than One Fourth
- Growth Rate Slowed by One Fourth to One Half
- Growth Rate Slowed by More than One Half





Change in Unemployment Rate

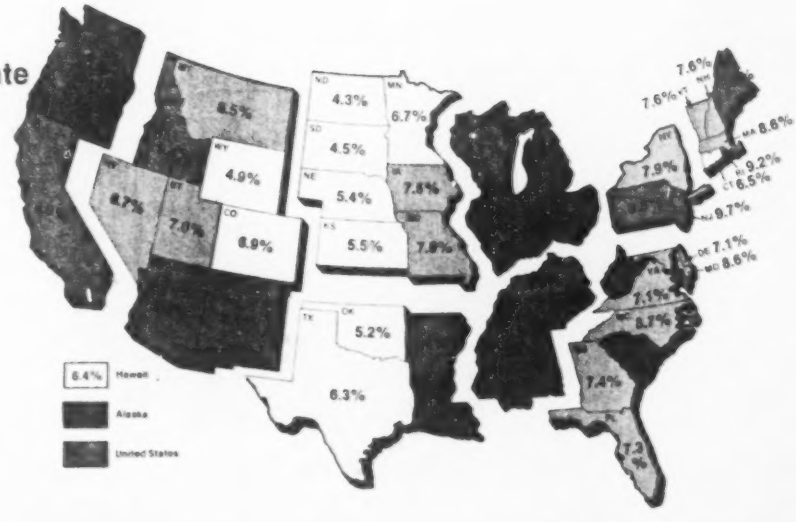
May 1981 to May 1982

- Rate Fell or Rose Less than 1.0 Point
- Rate Rose 1.0-1.9 Points
- Rate Rose 2.0-2.9 Points
- Rate Rose 3.0 Points or More

Unemployment Rate

May 1982

- Under 7.0%
- 7.0% to 8.9%
- 9.0% to 9.9%
- 10.0% and Over



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